Between 1993 and 2006, the share of multi-family units with building permits increased from 20 percent to 36 percent.

Housing Construction

Why is this important?

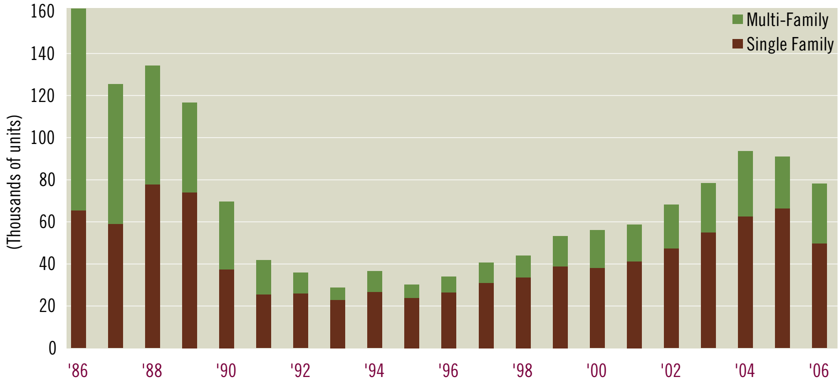
The magnitude of housing construction, population growth, and new households is a major determinant of housing prices. Different geographical distributions of new housing result in different needs for support infrastructure and services. The residential construction industry is also an important source of employment and corporate profit in the region.

How are we doing?

From 2005 to 2006, the total number of building permits issued in the region fell by 14 percent from 91,000 units to 78,200 units that were just below the 2003 level (Figure 40). This was the largest annual decline since 1990. Notably, the decline was only within the single-family sector in which the number of permits dropped by 25 percent (or 16,600 units) in one year. Permits for multi-family units achieved a 15 percent (or 3,700 units) increase but was still below the 2004 level. Between 1995 and 2004, housing construction activities in the region experienced a major recovery. After reaching its peak of 93,700 units in 2004, the number of permits issued has declined for two consecutive years.

Figure 40

Residential Building Permit Activity



Source: Construction Industry Research Board

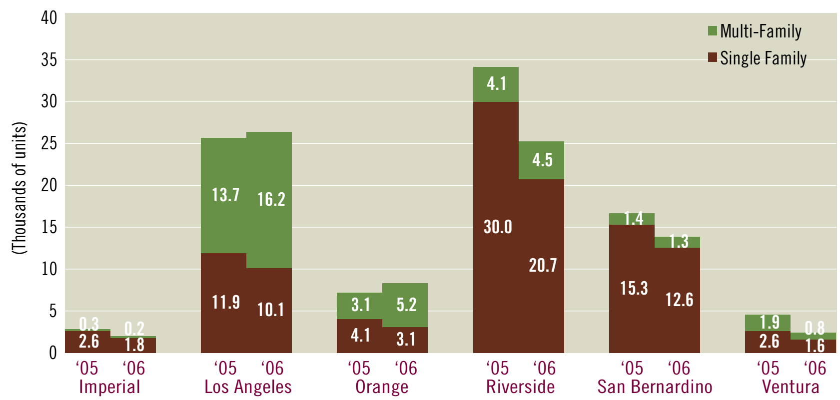
Within the region, the decline in building permits was concentrated in the Inland Empire (Figure 41). Specifically, between 2005 and 2006, the number of permits issued dropped by 9,000 units (26 percent) alone in Riverside County concentrating in the single-family sector. It also decreased by 2,800 units (17 percent) in San Bernardino County. The performance of the three costal counties varied. While the number of permits issued fell by 2,100 units (or 47 percent) in Ventura County, it increased by 700 units (3 percent) in Los Angeles

County, and 1,100 units (15 percent) in Orange County concentrating in multi-family housing.

As to the distribution of permits within the region, the Inland Empire counties accounted for about half of the total permits issued in 2006, a decline from 58 percent in the previous year. In particular, Los Angeles County led among the six counties in the total number of permits issued (26,341), close to 34 percent of the regional total, followed closely by Riverside County (25,246 or 32 percent).

Figure 41

Residential Building Permits by Housing Types, 2005-2006



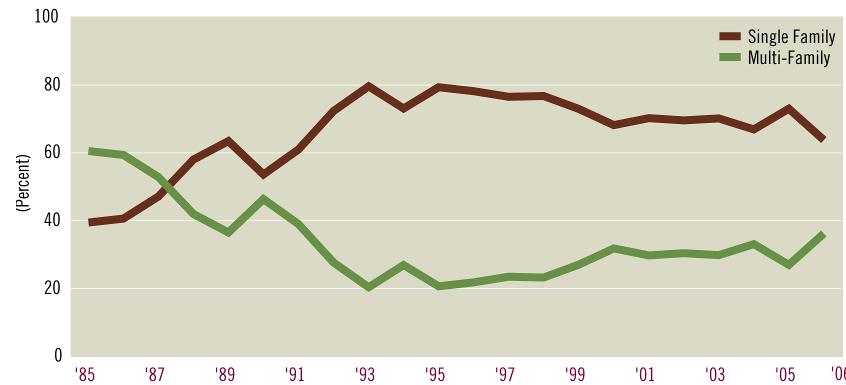
Source: Construction Industry Research Board

Among the total permits issued in 2006, about 36 percent were for multi-family housing, an increase from 27 percent in 2005. *Between 1993 and 2006, the share of multi-family units was on an upward trend increasing from 20 percent to 36 percent, while the share of single family units declined from 80 percent to 64 percent (Figure 42).*

Within the region, there continued to be significant differences between the coastal and inland counties with respect to the share of multi-family housing permits. Specifically, in both Los Angeles and Orange counties, more than 60 percent of the building permits issues were in multi-family though Ventura County's share was only 34 percent. In the remaining three inland counties, 80 percent or higher of the total permits were for single-family housing construction.

Figure 42

Composition of Residential Building Permits, 1985-2006



Source: Construction Industry Research Board

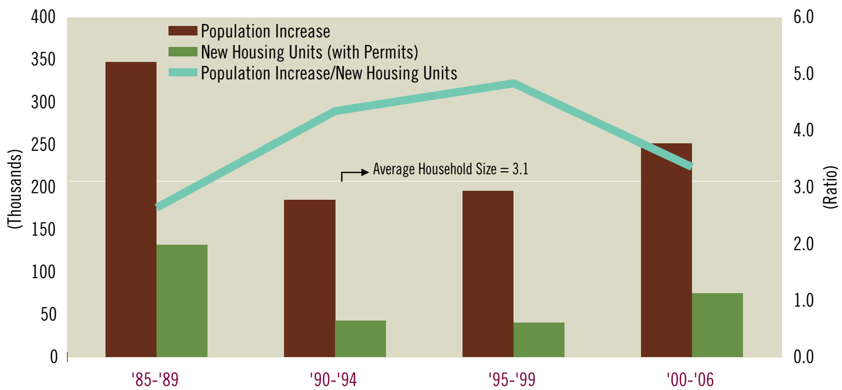
Since 2000, the continuous increase of permit activities (except for 2005 and 2006) and the recent slowdown in population growth have narrowed the gap significantly between housing supply and demand.

For example, yearly population in the region increased by about 293,000 between 2000 and 2006 compared to only 195,000 between 1995 and 1999, a rise of about 50 percent. However, annual building permits issued during the period from 2000 to 2006 were over 72,000, an 80 percent increase from about 40,000 units in the previous 5-year period (Figure 43). Hence, the ratio between population growth and new housing units with permits dropped markedly from 4.8 persons per unit (during the period between 1995 and 1999) to 3.4 persons per unit (during the period between 2000 and 2006), though still somewhat higher than the average household size of 3.1 persons per unit.

Figure 43

Population Increase vs. Building Permits, 1985-2006

(Annual Average)

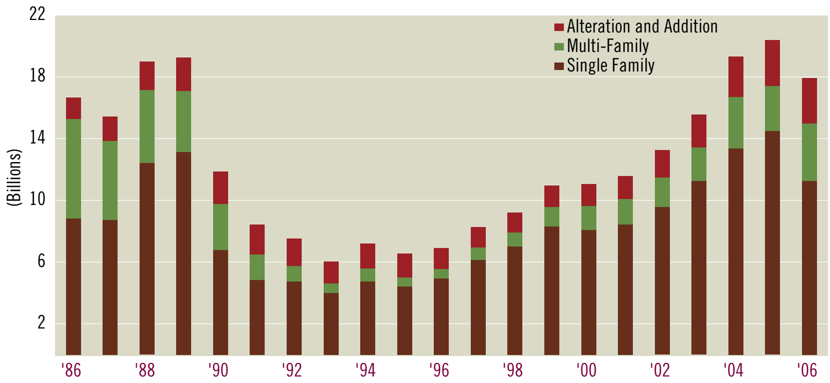


Source: California Department of Finance and Construction Industry Research Board

Total valuation of permits in 2006 reached almost $18 billion, a decline of $2.5 billion (22 percent). This was the first decline since 1994 and was primarily concentrated in single-family housing (Figure 44).

Figure 44

Valuation of Residential Building Permits



Source: Construction Industry Research Board

Homeownership

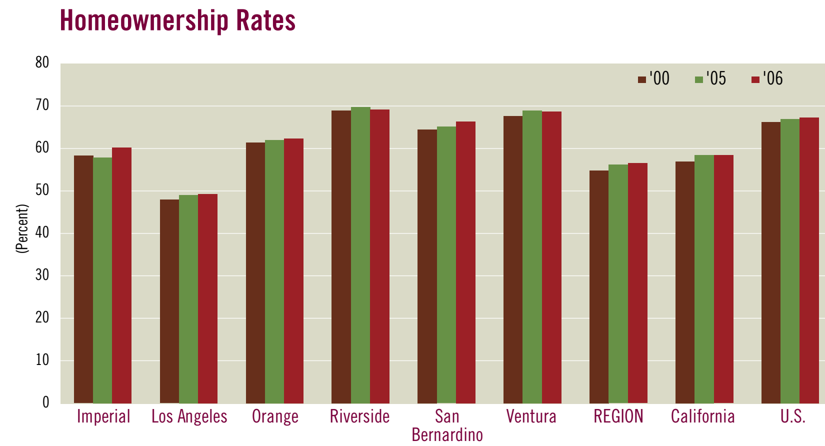
Why is this important?

Owning one's home has long been considered an important part of the American Dream. The equity generated from homeownership represents almost 45 percent of total household wealth.[1] Homeownership has also been an important pathway particularly for working-class families to accumulate enough wealth to ascend into the middle class.[2] Higher homeownership rates also help to improve neighborhood stability.

How are we doing?

From 2005 to 2006, homeownership rates increased very slightly at the regional and national levels, and remained unchanged at the state level. *Since 2000, homeownership in the region has been increasing steadily to reach close to 57 percent, an increase of about 2 percentage points (Figure 45).* Within the region, every county achieved an increase in homeownership during the six year period. Homeownership in Riverside County, though it decreased slightly by 0.5 percent from 2005, reached 69.2 percent in 2006 and was still the highest in the region followed by Ventura County with 68.7 percent. Riverside and Ventura counties are the only two counties with homeownership higher than the national average at 67.3 percent. Between 2005 and 2006, there were notable increases in homeownership rate in San Bernardino County, from 65.1 percent to 66.4 percent, approaching the national average. In 2006, Imperial County's homeownership also reached over 60 percent for the first time. Homeownership in Los Angeles County increased from 47.9 percent in 2000 to over 49 percent in 2006. However, it continued to have the lowest homeownership rate in the region.

Figure 45

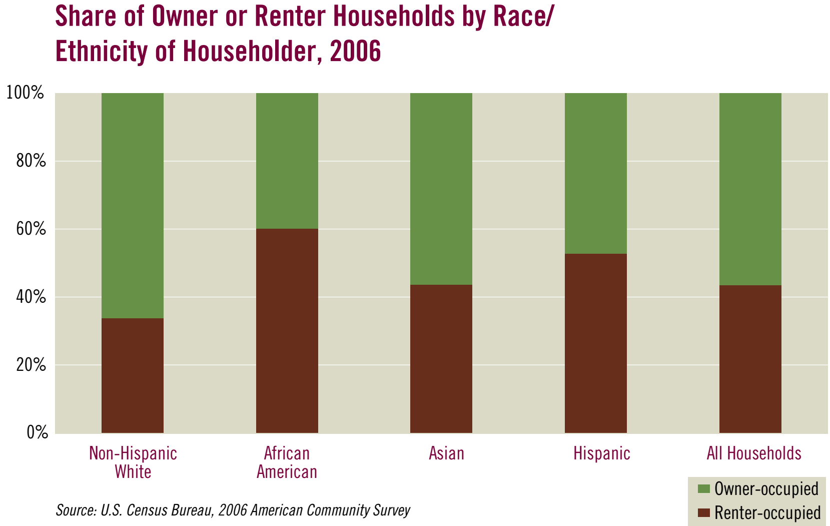


Source: U.S. Census Bureau, 2000 Census, 2005 and 2006 American Community Survey

Among the 9 largest metropolitan regions in the nation, the SCAG region continued to have the second lowest homeownership, just above the New York region (56 percent). Detroit region had the highest homeownership rate at 74 percent (see Figure 129 page 149).

Since 2000, the extended homeownership boom attracted many moderate- and higher-income households from the rental market. As a result, rental markets have become further skewed toward lower-income and minority households.[3] Within the region, 44 percent of the households relied on rental housing in 2006. Among the different racial/ethnic groups, 60 percent of African American households depended on rental housing, followed by Hispanic households with 53 percent. For the non-Hispanic White households, only 34 percent were renters. Improving Hispanic and recent immigrant homeownership achievement will be an important challenge since they account for well over 90 percent of the future household growth in the region.

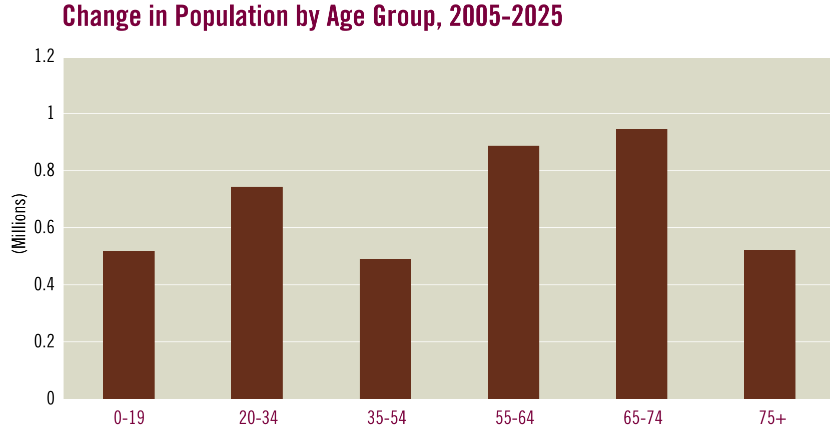
Figure 46



Source: U.S. Census Bureau, 2006 American Community Survey

Among the different age groups, those between 20 and 34 years old generally depend the most on rental housing. Population projections for the region indicated that by 2025 there will be approximately three-quarter million increase in residents aged 20-34, pointing to significant demand ahead for rental housing.

Figure 47



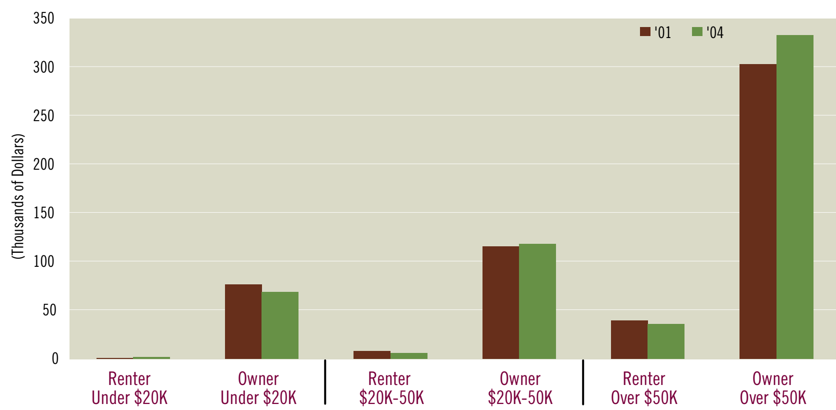
Source: Southern California Association of Governments

Close to half of the total household wealth is held as home equity through homeownership. This is partially the reason that renters have significantly less wealth than homeowners even within the same household income category. Based on national data in 2004, for households with an annual income between $20,000 and $50,000, the median wealth of renter households was only $6,000 while it was $118,000 for owner households, almost 20 times higher (Figure 48). The wealth disparities between renter and owner households also grew larger in recent years. Since 2001, the run-up of home prices has benefited many existing homeowners in terms of rising home equity. On the other hand, the continuing rise of rent has been draining the financial resources of renters. Consequently, between 2001 and 2004, the wealth disparities between homeowners and renters generally widened, particularly for households with income higher than $20,000. For example, for households with income over $50,000, the median wealth for owner households grew from $307,000 to $332,000 between 2001 and 2004, while it declined from $39,000 to $35,000 for renter households. Since home appreciations in the SCAG region were considerably higher than

that in the nation, the corresponding wealth disparities are estimated to be larger in the region. *The significant and widening wealth disparities between renter and owner households further underscore the importance of homeownership.*

Figure 48

Median Wealth of Renter and Owner Households by Household Income



Source: Joint Center for Housing Studies of Harvard University, 2007, The State of the Nation's Housing

Housing Affordability

Why is this important?

Housing affordability provides an indication of the level of financial burden of housing expenses. Housing constitutes the largest share of household expenditures among all consumption items. When a household spends too much on housing, there is not enough left to meet other household needs, such as transportation, healthcare or education. Housing affordability also affects decisions as to where to live. Hence, housing affordability is an indicator reflecting the fundamental well-being of households. In addition, it influences business decisions to locate or expand in the region. Lack of affordable housing will result in a weakening of our region's attractiveness and competitiveness.

How are we doing?

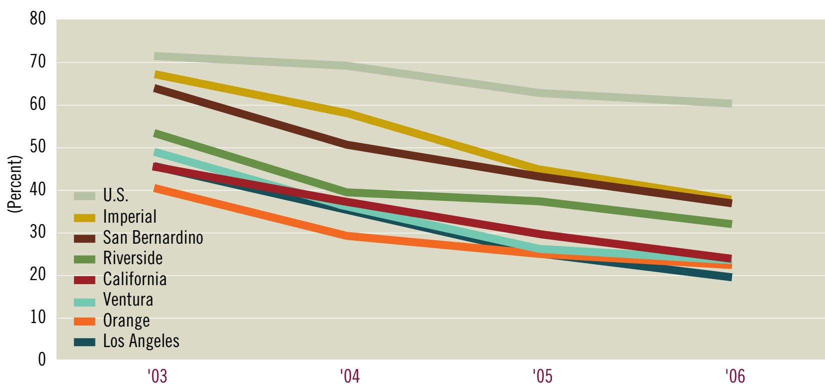
Housing affordability can be measured by the share of first-time homebuyers who can afford to purchase an entry-level home at 85 percent of the median price or by the share of household income spent on housing. *By both measures, housing affordability continued to decline throughout Southern California and reached a record low in 2006.*

First-time buyers typically purchase an entry-level home at 85 percent of the median home price.[4] Between 2003 and 2006, the share of first time buyers who can afford to purchase an entry-level home dropped by about a half in the three coastal counties, from more than 40 percent to just over 20 percent. During the same period, it dropped from 64 to 37 percent in San Bernardino County and from 53 to 32 percent in Riverside County. *While 60 percent of the first-time homebuyers in the nation can afford an entry-level home, less than 30 percent of the region's first-time homebuyers could achieve the same.* Since 2003, the housing affordability gap between the region and the nation has widened for the first-time homebuyers (Figure 49).

Figure 49

Housing Affordability for First-time Buyers

(Percent of Households Who Can Afford to Purchase a Home at 85% of the Median-Priced Home)



Source: California Association of Realtors, estimates for Imperial

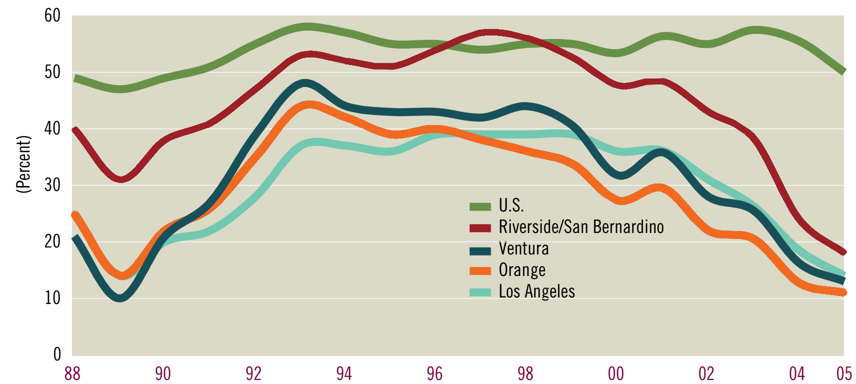
As to the general population, the share of households able to afford a median-priced home in the three coastal counties (Los Angeles,

Orange and Ventura) dropped below 15 percent in 2005, the lowest since 1989. *In 2005, every county in the region had lower housing affordability than the national average and the gaps have continued to widen since 1997* (Figure 50).

Figure 50

Housing Affordability

(Percent of Households Who Can Afford to Purchase a Median-Priced Home)



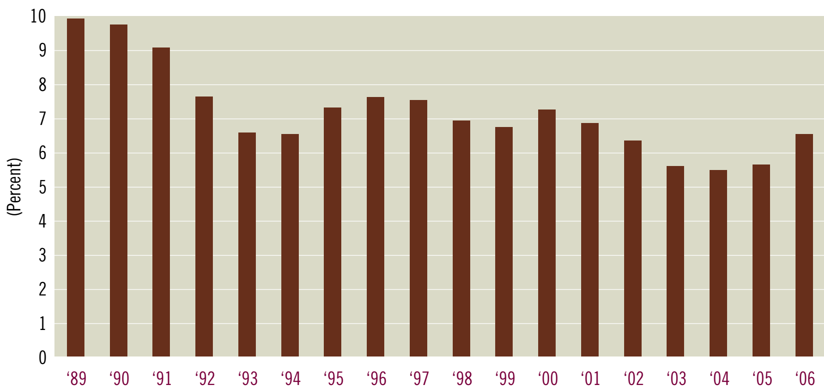
Data for Imperial County not available
Source: California Association of Realtors

Housing affordability is generally impacted by household income, home prices and mortgage interest rates. Between 2005 and 2006, average mortgage interest rate rose from 5.64 to 6.53 percent (Figure 51). *During 2006, home appreciation at 8 percent at the regional level, though the lowest since 2000, continued to outpace the income growth making housing less affordable.*

Real median household income increased by 2.6 percent from 2005 to 2006. However, median home prices in the region reached historic peaks in 2006 in almost every county in the region (Figure 52). Between 2000 and 2006, median home prices for existing homes more than doubled in Los Angeles, Orange, Ventura, and Imperial counties and almost tripled in the Inland Empire. In 2006, home appreciation slowed significantly from the previous period, particularly for the Inland Empire. Specifically, home appreciation in the Inland Empire was about 7 percent in 2006, a significant drop from 26 percent in 2005 and 34 percent in 2004. Home appreciation in Orange and Ventura counties were below 3 percent in 2006, a significant decline from 10 percent in 2005 and almost 30 percent in 2004.

Figure 51

Average Mortgage Rate

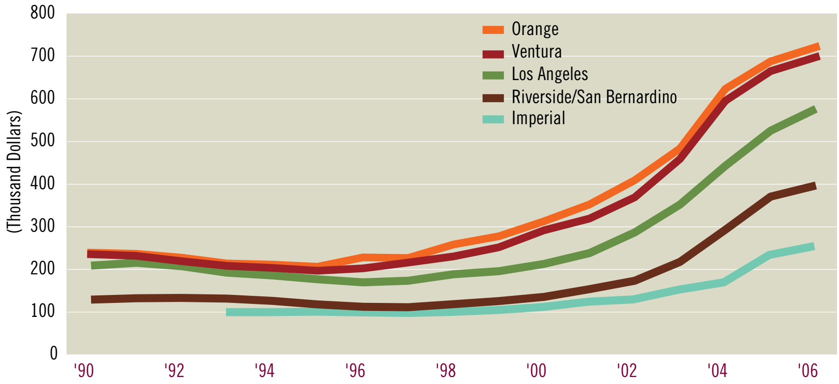


Source: Real Estate Research Council of Southern California

Figure 52

Median Home Price

(Existing Single-Family Homes in Current Dollars)



** Imperial County data not available between 1990 and 1992*
Source: California Association of Realtors and DataQuick Information Systems

The record high home prices were affected by several factors including low interest rates, wider availability and uses of non-traditional mortgage financing and the accumulation of unmet demand since the early 1990s. In 2006, though average mortgage interest rate rose to 6.53 percent, it is still considered low by historical standard. Lower interest rates could allow for higher selling prices and still keep the same monthly mortgage payment amount. In addition, there are wider availability and uses of non-prime mortgage financing in recent years. Between 2001 and 2006, the use of non-prime loans nationally surged from 23 percent to 51 percent.[5] Prime loans consist of conventional and jumbo loans, and non-prime loans include sub-prime, Alt-A, home equity and FHA/VA loans.[6]

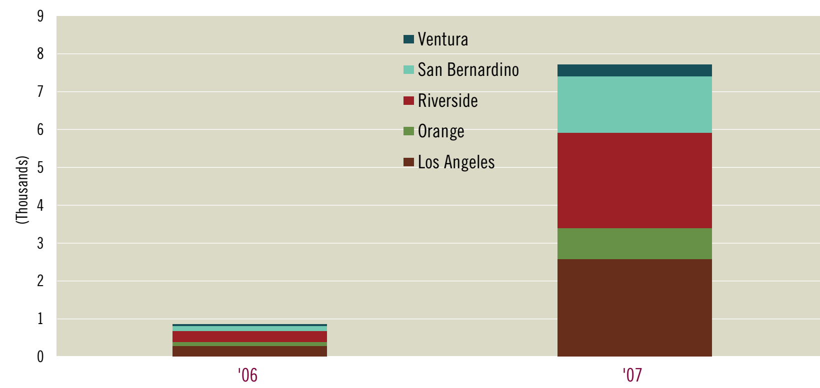
In 2006, 20 percent of all loans in the state and the nation were subprime loans, more than doubling its share in 2001. Subprime loans are generally loans made available to borrowers who do not quality for conventional financing due to low credit scores. A subprime loan also tends to involve loose underwriting requirements, such as minimum down payment and the option to provide a "stated income" without documentation. Also over 30 percent of loan originations in California in 2006 were loans with interest-only features, compared to 22 percent nationally. At the end of 2006, there were 229,268 adjustable-rate mortgages between one and three years old in Riverside and San Bernardino counties, and almost 32 percent of those were subprime loans.[7] As housing prices are leveling off and lending standards are becoming stricter, borrowers could no longer refinance or cash out their homes for a profit, triggering a rising tide of defaults, the first step to foreclosures.

Between 2005 and 2006, the number of notices of defaults in the region increased from about 35,000 to 60,000, the highest level since 1999.[8] This represented a 70 percent jump compared to only 3-percent increase during the previous period. Riverside County saw its notices of defaults almost doubled between 2005 and 2006 since the use of sub-prime products by first-time homebuyers were concentrated in the relatively more affordable communities such as the Inland Empire.

In 2007, foreclosures surged in the region and the rest of the state. During the second quarter in 2007, there were about 7,800 foreclosures in the region, an increase from only about 860 during the second quarter in 2006 (Figure 53). More than half of the foreclosures in the region in 2007 (second quarter) took place in the Inland Empire. At the state level, foreclosures hit a record high of 17,400 during the second quarter in 2007, surpassing the previous peak of 15,400 in 1996 (third quarter). *Because the number of subprime loans funded peaked in 2006, and the interest rates of these loans are not scheduled to reset for a few more years, the increased rate of foreclosures may continue through 2008.*

Figure 53

Home Foreclosures
(2nd Quarter Data)



Source: DataQuick Information Systems

In 2006, about 53 percent of the region's owner households (with a mortgage) had monthly costs at or greater than 30 percent of household incomes, about a 5-percent increase from 2005 and considerably higher than the national average of 37 percent (Figure 54). Statewide data further indicated that 20 percent of recent California homeowners spend more than half of their incomes on housing costs.[9] At the national level in 2006, only 37 percent of owner households had monthly costs at or greater than 30 percent of household incomes. *In 2006, the SCAG region had the highest homeowners housing cost burden among the nine largest metropolitan regions in the nation, followed closely by the San Francisco Bay Area (see Figure 130 page 149).*

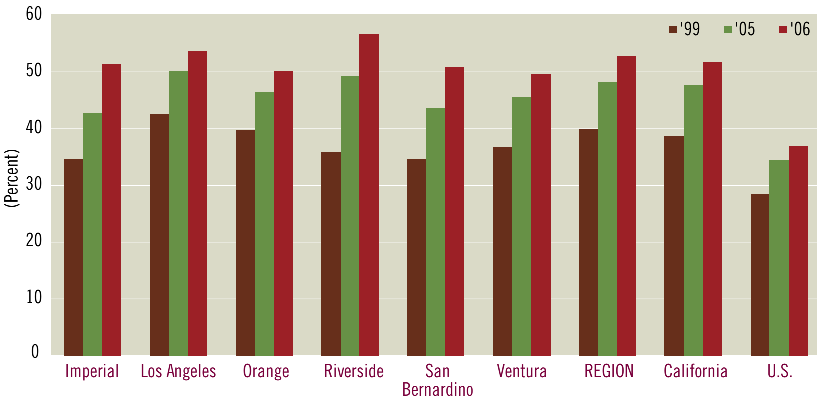
Within the region, every county has experienced a significant increase in housing cost burden since 2000. In 2006, Riverside County had the highest cost burden with 57 percent of owner households paying 30 percent or more of household income on housing. In addition, between

2005 and 2006, the three inland counties experienced larger percentage increases in housing cost burdens than their coastal counterparts.

Figure 54

Housing Cost Burden

(Owner Households Paying 30 Percent or More of Household Income on Housing*)



** Percentage share of all owner households with a mortgage*
Source: U.S. Census Bureau, 2000 Census, 2005 and 2006 American Community Survey

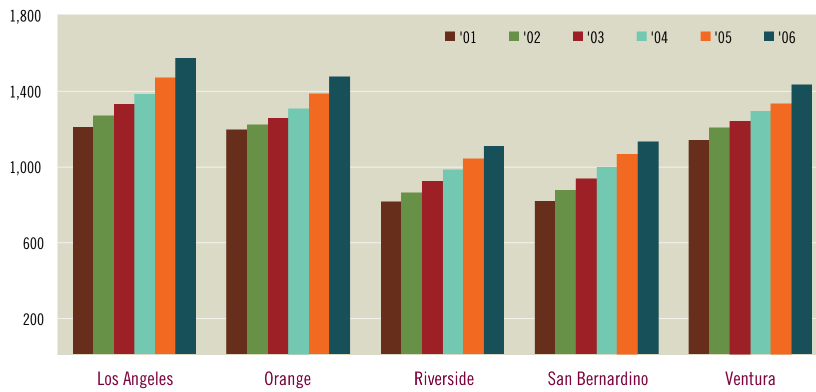
With rising interest rates, record home prices, slowing of the home sale market and continuing population growth, demand for rental units has been growing. At the same time, the conversion of apartments to condominiums reduced the supply of rental units. Between 2005 and 2006, average rents in the region increased generally by more than 7 percent (without inflation adjustment). In 2006, average monthly rents were around $1,500 in the coastal counties and above $1,100 in the Inland Empire (Figure 55). The Los Angeles/Orange county area topped all markets in the west for the most expensive monthly rents while occupancy rate remained at almost 96 percent. *Among the over 2.4 million renter households in the region in 2006, more than 53 percent (1.2 million households) spent 30 percent or more of their incomes on rent, noticeably higher than the national average of 46 percent (Figure 56).*

Within the region, Riverside County suffered the highest cost burden with 56.3 percent of renter households paying 30 percent or more of household income on housing.

Figure 55

Average Monthly Rent

(Current Dollars)



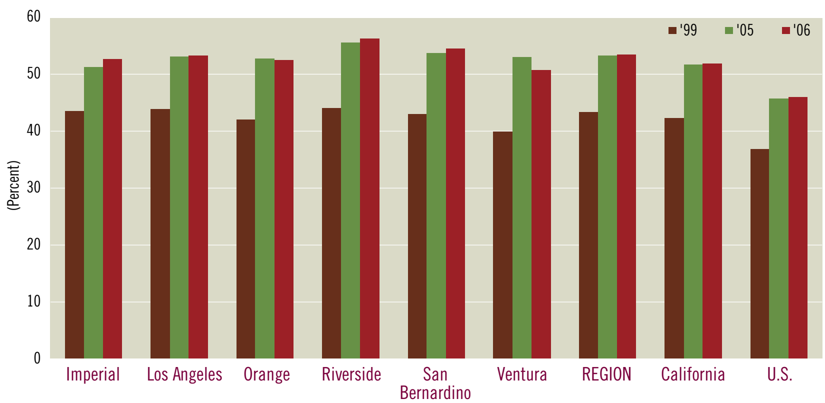
Data for Imperial County not available
Source: Real Estate Research Council of Southern California

Though changed little between 2005 and 2006, rental cost burden has generally been increasing steady at the regional, state and national levels. *Among the nine largest metropolitan regions in the nation, the SCAG region continued to have the highest share (53 percent) of rental households with monthly rent at or greater than 30 percent of household income (see Figure 131 page 150).* Following the SCAG region was the Boston region, with 49 percent of renters spending 30 percent or more of their incomes on rent. In addition, California had the highest median rent among all states in 2006 except Hawaii. Hence, rental housing is an important public policy issue at the regional as well as state levels.

Figure 56

Rental Cost Burden

(Renters Paying 30 Percent or More of Household Income on Rent)



Source: U.S. Census Bureau, 2000 Census, 2005 and 2006 American Community Survey

Housing Crowding

Why is this important?

Housing crowding measures the percent of housing units with more than one person per room, including all rooms except bathrooms. It provides an indication of housing shortages and housing affordability. Lack of affordable housing will lead to higher levels of housing crowding.

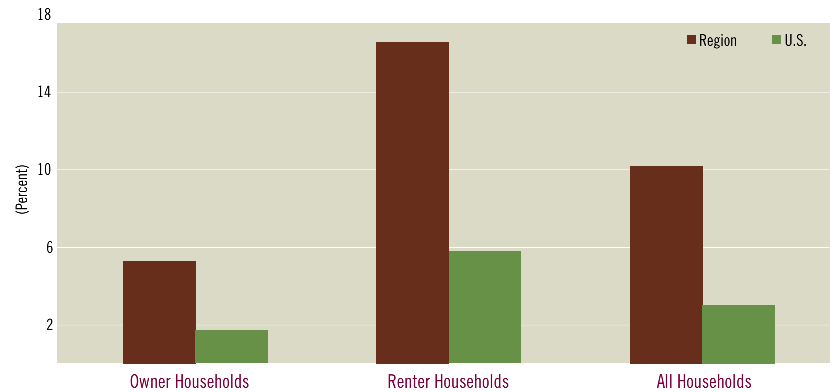
How are we doing?

In 2006, about 10.2 percent of the occupied housing units were considered to be crowded, a slight decrease of 0.4 percent from the previous year. Between 2000 and 2006, the share of crowded housing in the SCAG region dropped 3.6 percentage points. Within the region, Los Angeles County continued to have the highest rate (12.1 percent) of crowded housing.

Overcrowding is most common in rental housing due to higher concentrations of lower-income households. In 2006, while only 5.3 percent of the owner households in the region lived in crowded housing, close to 17 percent of the renter households experienced the same (*Figure 57*). Hence, a renter household was about 3 times more likely to live in crowded conditions than their owner household counterpart. Nationally, the disparity between renter and owner households living in crowded housing was much smaller, 5.8 percent vs. 1.7 percent respectively.

Figure 57

Housing Crowding*, 2006



** With more than one occupant per room excluding bathrooms*
Source: U.S. Census Bureau, 2006 American Community Survey

In 2006, Southern California continued to have the highest rate of crowded housing among the nine largest metropolitan regions.